

Economics 847
Empirical Industrial Organization and Applied Microeconomics
Fall 2020

Brian McManus
mcmanusb@unc.edu

Phone: 966-5392
Office: Gardner 200C

Course mode: Face-to-face/Hybrid. We will hold in-person meetings plus provide Zoom access.

In-person location & time: Mitchell 05. Tuesdays and Thursdays, 3:00 - 4:15

Office Hours: Mondays 2:00-3:00 and Wednesdays 9:30-10:30, both on Zoom. You can also schedule a meeting.

Mask use

Before entering the classroom, all students must put on a mask covering their nose and mouth. Masks must remain in place until the after the student leaves the classroom. There are no exceptions to this policy; students who are unable to wear a mask should contact Accessibility Resources and Service. If you do not comply with the mask policy, I will drop you from the course and report you to the Office of Student Conduct.

Course organization and goals

This is the first of two empirical industrial organization (IO) courses offered at UNC during the 2020-21 academic year. The courses are designed to be taken in sequence. In this course we cover static demand estimation, information issues, vertical relations between firms, and platforms. The second course covers dynamic demand, auctions, and static and dynamic games.

If you intend to do dissertation research in empirical IO, you should also take a course in IO theory. Professor Gary Biglaiser is teaching a theory course (Econ 846) during fall 2020 that is designed, in part, to complement the UNC empirical IO sequence.

This course has three goals. Our main objective is to prepare you to do original research in empirical IO. To this end, we will survey some of the main areas of the IO literature. Our survey will focus on introducing some modeling and estimation techniques that are central to modern empirical IO, and we will also review some topics that are prominent in current research.

Our second objective is to improve your ability to do research in applied microeconomics, broadly defined. To satisfy this objective, we will put extra weight on parts of the empirical IO literature that

are most likely to be beneficial for research outside of IO. In some cases these benefits will come through exposure to particular econometric techniques, and in other cases they will come through economic models or empirical results that are useful for all microeconomists to know.

The final objective is to show you some very successful dissertation papers in empirical IO. Successful dissertations across applied microeconomics will have much in common in terms of question selection, data construction, and methodology.

Our approach

We will read a selection of papers from the empirical IO literature. The emphasis will be on recent papers so that you can see the latest methods applied.

For each paper we read, you will need to evaluate:

- What new tools do I learn from this paper?
- How is the empirical exercise motivated by theory or policy relevance?
- What is the relationship between the relevant theory and the empirical exercise?
- What about the data and modeling assumptions do you believe and/or not believe?
- Why does the author think that the results answer the paper's main questions?
- How could this paper be extended to provide additional useful results? If the present data and model are insufficient, what is needed?

We will develop your ability to answer these questions through a series of in-class activities, homework assignments, and a final paper.

Graded work

Your grade will come from four distinct activities.

1. Class participation (25%). Our class meetings will involve balanced discussion among all of us. You need to contribute constructively and frequently to classroom discussion for your own grade and to help move the class along. Zoom participation counts!
2. Paper presentations (20%). Each student will do one in-class presentation of a research article during the semester. Students will be assigned in pairs to articles. Each pair of students will work together to develop slides for their presentation, and each individual student will present for about 30 minutes. I will assign the portions of each paper that the students will present.
3. Homework assignments (30%). There will be 4 or 5 data-oriented homework assignments. You will need Stata or a similar package for some of the assignments, and an advanced programming language such as Matlab for others.

4. Final paper (25%). By noon on Monday November 23 you will turn in a brief paper (8-12 pages) that motivates and describes a novel empirical research idea that is part of industrial organization, broadly defined. Think of this paper as a condensed version of the material found in the first half of a traditional research article. You do not need to collect the data necessary to “complete” the article, but you must show that the data could be collected or created in a reasonable amount of time or with finite financial resources. During the last week of class you will give a brief presentation on your paper topic and progress.

Sakai

I will use Sakai to host Zoom recordings of class meetings, distribute notes, readings, homework assignments, etc. Please verify that you can log on to Sakai and access the information for this class. All grades for the course will be stored and displayed on the Sakai course page. It is your responsibility to insure that the grades on this course page are accurate.

Homework assignments

I will post assignments to Sakai about one week before they are due. Some assignments must be done individually, while others can be completed in groups of 2 or 3 students. You are welcome to discuss all assignments and potential solutions freely with any students in the class, but each individual or group must turn in his or her own version of the homework. I will provide brief answers to the assignments about one week after they are due.

Classroom etiquette

I expect you to arrive on time and prepared for the day’s class. My goal is to maintain a classroom environment that provides a good learning environment for everyone. (I usually ban laptops and phones, but this is inappropriate for the current semester.) If you use a laptop during class, you should restrict your usage to class-related activities. If you view content unrelated to class, you will distract your neighbors in addition to taking your own focus away from our discussion.

Readings and outline

There are several high-quality background sources that you should be ready to consult. They are:

- D. Carlton and J. Perloff, *Modern Industrial Organization*, Addison Wesley, 2004.
- J. Wooldridge, *Econometric Analysis of Cross-Section and Panel Data*, MIT, 2002
- J. Tirole, *The Theory of Industrial Organization*, MIT Press, 1988
- T. Bresnahan, "Empirical Studies of Industries with Market Power," in Schmalensee and Willig (Eds.), *Handbook of Industrial Organization*, Vol. 2, Ch. 17, pp. 1011-58. 1989.
- D. Akerberg, C.L. Benkard, S. Berry, and A. Pakes, "Econometric Tools for Analyzing Market Outcomes," in Heckman and Leamer (Eds), *Handbook of Econometrics*, Vol. 6, Ch. 63, pp. 4171-4276.
- P. Reiss and F. Wolak "Structural Econometric Modeling: Rationales and Examples from Industrial Organization," in Heckman and Leamer (Eds), *Handbook of Econometrics*, Vol. 6, Ch. 64, pp. 4277-4415.

The books are available for purchase or at the library. The handbook chapters are available at the course Sakai page.

The specific readings for this course are listed below and separated by topic. I have provided estimates of how much time each topic will take us to cover. These estimates are likely to be wrong, and we will adjust our topic coverage as needed throughout the semester.

Each listed topic identifies some papers we will cover in class, plus some extra material for students interested in any particular topic. You are required to read all of the papers under each "In class" heading before we discuss them in class. I will give you advance notice on what papers we will cover in upcoming classes. Count on reading about one paper per class meeting.

About a month into the semester, we will begin having student presentations of papers. These are likely to be drawn from the collection of papers we will cover in class. Presentation topics and timing will be assigned about two weeks before the presentations begin.

Policy background (first meeting)

In class:

- Various recent popular press articles on current IO applications.
- S. Berry, M. Gaynor, F. Scott Morton, "Do Increasing Markups Matter? Lessons from Empirical Industrial Organization," JEP 33(3), Summer 2019, pp. 44-68.

Static demand

Homogeneous goods (0.5 week)

In class:

- R. Porter, "A Study of Cartel Stability: The Joint Executive Committee, 1880-1886," BJE 14(2), Autumn 1983, pp. 301-314.

Supplemental papers:

- T. Bresnahan, "The Oligopoly Solution Is Identified," *EL* 10(1-2), 1982, pp. 87-92.
- K. Graddy, "Testing for Imperfect Competition at the Fulton Fish Market," *RJE* 26(1), Spring 1995, pp. 75-92.
- D. Genesove and W. Mullin, "Testing Static Oligopoly Models: Conduct and Cost in the Sugar Industry, 1890-1914," *RJE* 29(2), Summer 1998, pp. 355-377.

Differentiated products (2 weeks)

In class:

- T. Bresnahan, "Competition and Collusion in the American Automobile Industry: The 1955 Price War," *JIE* 35(4), June 1987, pp. 457-482.
- S. Berry, "Estimating Discrete-Choice Models of Product Differentiation," *RJE* 25(2), Summer 1994, pp. 242-262.
- S. Berry, J. Levinsohn, and A. Pakes. "Automobile Prices in Market Equilibrium." *ECMA* 63(4), July 1995, pp. 841-890.

Supplemental papers:

- D. Epple, "Hedonic Prices and Implicit Markets: Estimating Demand and Supply Functions for Differentiated Products," *JPE* 95(1), February 1987, pp. 59-80.
- P. Goldberg, "Product Differentiation and Oligopoly in International Markets: The Case of the U.S. Automobile Industry," *ECMA* 63(4), July 1995, pp. 891-951.
- I. Hendel, "Estimating Multiple Discrete Choice Models: An Application to Computerization Returns," *REStud* 66(2), April 1999, pp. 423-446.
- A. Nevo, "A Practitioner's Guide to Estimation of Random Coefficients Logit Models of Demand," *JEMS* 9(4), December 2000, pp. 513-548.
- P. Bajari and L. Benkard "Demand Estimation with Heterogeneous Consumers and Unobserved Product Characteristics: A Hedonic Approach," *JPE* 113(6), December 2005, pp. 1239-1276.
- S. Berry, J. Levinsohn, and A. Pakes, "Differentiated Products Demand Systems from a Combination of Micro and Macro Data: The New Car Market," *JPE* 112(1), February 2004, pp. 68-105.

Demand applications

Welfare effects (2 weeks)

In class:

- A. Nevo, "Mergers with Differentiated Products: The Case of the Ready-to-Eat Cereal Industry," *RJE* 31(3), Autumn 2000, pp. 395-421.
- A. Petrin, "Quantifying the Benefits of New Products: The Case of the Minivan," *JPE* 110(4), August 2002, pp. 705-729.
- M. Gentzkow, "Valuing New Goods in a Model with Complementarity: Online Newspapers," *AER* 97(3), June 2007, pp. 713-744.

Supplemental papers:

- M. Trajtenberg, "The Welfare Analysis of Product Innovations, with an Application to Computed Tomography Scanners," *JPE* 97(2), April 1989, pp. 444-479.
- A. Goolsbee and A. Petrin, "Consumer Gains from Direct Broadcast Satellites and the Competition with Cable TV," *ECMA* 72(2), March 2004, pp. 351-381.

Price discrimination and bargaining models (2 weeks)

In class:

- P. Leslie, "Price Discrimination in Broadway Theater," *RJE* 35(3), Autumn 2004, pp. 520-541.
- G. Crawford and A. Yurukoglu, "The Welfare Effects of Bundling in Multichannel Television Markets," *AER* 102 (2), April 2012, pp. 643-85.
- G. Gowrisankaran, A. Nevo, and R. Town "Mergers when Prices Are Negotiated: Evidence from the Hospital Industry," *AER* 105(1), January 2015, pp.172-203.

Supplemental papers:

- A. Shepard, "Price Discrimination and Retail Configuration," *JPE* 99(1), February 1991, pp. 30-53.
- B. McManus, "Nonlinear Pricing in an Oligopoly Market: The Case of Specialty Coffee," *RJE* 38(2), Summer 2007, pp. 512-532.
- G. Crawford, "The Discriminatory Incentives to Bundle in the Cable Television Industry," *QME* 6(1), March 2008, pp. 41-78.
- M. Grennan, "Price Discrimination and Bargaining: Empirical Evidence from Medical Devices," *AER* 103(1), February 2013, pp. 145-177.

Information in markets (2 weeks)

In class:

- G. Jin and P. Leslie, "The Effects of Information on Product Quality: Evidence from Restaurant Hygiene Grade Cards," *QJE* 118(2), May 2003, pp. 409-451.
- B. De Los Santos, A. Hortacsu, and M. Wildenbeest, "Testing Models of Consumer Search Using Data on Web Browsing and Purchasing Behavior," *AER* 102(6), October 2012, pp. 2955-2980.
- J.L. Moraga-Gonzales, Z. Sandor, and M. Wildenbeest, "Consumer Search and Prices in the Automobile Market," Indiana-Kelley working paper, 2018.

Supplemental papers:

- D. Genesove, "Adverse Selection in the Wholesale Used Car Market." *JPE* 101(4), August 1993, pp. 644-665.
- J. Milyo and J. Waldfogel, "The Effect of Price Advertising on Prices: Evidence in the Wake of 44 Liquormart," *AER* 89(5), December 1999, pp. 1081-96.
- A. Sorensen, "Equilibrium Price Dispersion in Retail Markets for Prescription Drugs," *JPE* 108(4), August 2000, pp. 833-850.
- D. Akerberg, "Empirically Distinguishing Informative and Prestige Effects of Advertising," *RJE* 32(2), Summer 2002, pp. 100-118.

- D. Dranove, D. Kessler, M. McClellan and M. Satterthwaite, "Is More Information Better? The Effects of 'Report Cards' on Health Care Providers" JPE 111(3), June 2003, pp. 555-588.
- M.S. Goeree, "Limited Information and Advertising in the US Personal Computer Industry," ECMA 76(5), September 2008, pp. 1017-1074.

Inter-firm relationships (1.5 weeks)

In class:

- A. Hortcasu and C. Syverson, "Cementing Relationships: Vertical Integration, Foreclosure, Productivity, and Prices", JPE 115(2), April 2007, pp. 250-301.
- F. Luco and G Marsall, "The Competitive Impact of Vertical Integration by Multiproduct Firms," AER 110(7), July 2020 pp. 2041-64.

Supplemental papers:

- J. Mortimer, "Vertical Contracts in the Video Rental Industry," REStud 75(1), January 2008, pp. 165-199.
- G. Crawford, R. Lee, M. Whinston, A. Yurukoglu, "Welfare Effects of Vertical Integration in Multichannel Television Markets," ECMA 86(3), May 2018, 891-954.
- F. Lafontaine, "Agency Theory and Franchising: Some Empirical Results," RJE 23(2), Summer 1992, pp. 263-283.
- J. Hastings, "Vertical Relationships and Competition in Retail Gasoline Markets: Empirical Evidence from Contract Changes in Southern California," AER 94(1), March 2004, pp. 317-328.
- G. Baker and T. Hubbard, "Make vs. Buy in Trucking: Asset Ownership, Job Design and Information," AER 93(3), June 2003, pp. 551-572.
- P. Joskow, "Contract Duration and Relationship-Specific Investments: Empirical Evidence from Coal Markets," AER 77(1), March 1987, pp. 168-85.

Platforms (2 weeks)

In class:

- M. Dinerstein, L. Einav, J. Levin, and N. Sundaresan, "Consumer Price Search and Platform Design in Internet Commerce," AER 108(7), July 2018, pp. 1820-59.
- C. Farronato and A. Fradkin, "The Welfare Effects of Peer Entry in the Accommodation Market: The Case of AirBNB," NBER working paper 24361, March 2018.
- K. Chen, J. Chevalier, P. Rossi, E. Oehlsen, "The Value of Flexible Work: Evidence from Uber Drivers," JPE 127(6), December 2019, pp. 2735-2794.
- B. McManus, A. Nevo, Z. Nolan, and J. Williams, "Steering Incentives and Bundling Practices in the Telecommunications Industry," UNC working paper 2020.

Supplemental papers:

- G. Saloner and A. Shepard, "Adoption of Technologies with Network Effects: An Empirical Examination of the Adoption of Automated Teller Machines," RAND 26(3), Autumn 1995, pp. 479-501.

- M. Rysman, "Competition between Networks: A Study of the Market for Yellow Pages," REStud 71(2), April 2004, pp. 483-512.
- D. Akerberg and G. Gowrisankaran, "Quantifying Equilibrium Network Externalities in the ACH Banking Industry," RAND 37(3), Autumn 2006, pp. 738-61.

Abbreviations for journal names:

AER – American Economic Review
BJE – Bell Journal of Economics
ECMA – Econometrica
EL - Economics Letters
IER – International Economic Review
JEMS – Journal of Economics and Management Strategy
JIE – Journal of Industrial Economics
JEP – Journal of Economic Perspectives
JPE - Journal of Political Economy
RJE – RAND Journal of Economics
REStud – Review of Economic Studies
QJE – Quarterly Journal of Economics
QME – Quantitative Marketing and Economics